

NEXT

A Strategy for MCC's Future



MILLENNIUM
CHALLENGE CORPORATION

UNITED STATES OF AMERICA

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Abstract

The Millennium Challenge Corporation (MCC) was created in 2004 to pioneer a new approach to poverty reduction—firmly grounded in the best evidence and aimed at expanding the frontiers of development effectiveness. Over a decade later, MCC has a track record that validates the efficacy of this model, but it also has learned, and adapted to, many important lessons along the way. This document charts a course for deepening and expanding impact and meeting the challenges of the new landscape of global poverty and development. It lays out new directions, five specific goals, and priority actions that MCC will pursue, building on its proven model and founding principles. By following this strategy, MCC will seek to achieve greater leverage and results from the use of its resources, partner consistently and catalytically with the private sector and other key development actors, and continue to drive innovations in development effectiveness in the development community.

A Message from Dana J. Hyde



It has been over a decade since MCC was founded as a bold experiment, and in that time the model has proven to be one of the most effective ways to transform lives and advance prosperity around the world.

MCC's support for the best-governed poor countries has been a critical tool for promoting U.S. democratic values. And it has laid the groundwork for sustained and widely shared economic growth that lifts people out of poverty. This strategic plan provides a blueprint as we embark upon the agency's next chapter.

As an institution committed to innovative development solutions, we recognize that MCC must continue to evolve to strengthen and deepen its impact. We must continue to foster an environment where learning is applied and adaptation is embraced. The occasion of MCC's 10-year anniversary presented an opportunity to take stock of our experiences over the past decade and reflect on what we learned. This strategic plan was born out of that stock-taking, and represents a collaborative effort with MCC's staff, Board of Directors, and stakeholders in and outside of government. MCC's unique approach to development is sustained by this community, which continues to amaze me with its enduring commitment to MCC's model, mission, and people.

The path laid out in the pages that follow takes to heart the lessons of the past, while reaching for the opportunities of tomorrow. Experience has taught us where we can hone our approach and where we can pursue innovations that will help us fight poverty. We can double down on our investments by seeking to achieve systemic change, promote regional integration, and ensure that our work reaches communities that need it most. We can strengthen programs by working collectively with our public and private partners. We can push ourselves to lead by example and drive best practices in the U.S. Government and across the development community. And our greatest asset – and most valuable investment – is our people.

The challenge to end poverty requires a global response, with donors working hand-in-hand with partner countries, the private sector, and civil society to advance growth. MCC is a small but critical piece of the solution, and we will continue to utilize the most rigorous, data-driven, transparent, and effective programs to achieve our singular mission: poverty reduction through economic growth.

Founding Principles

MCC was founded on the following principles:

- MCC has a single mission: reducing poverty through economic growth.
- Aid is more effective in countries where there is good governance, personal and economic freedom, and investment in people.
- Country ownership of programs from the start is essential for sustainable success.
- Data-driven analytical rigor and a focus on outcomes should govern resource allocation, project design, and results measurement.
- Transparency and accountability must be embedded in all aspects of the country partnership—before, during, and after the compact period.

Based on these principles, MCC's founders established a new model for development. That model raised a number of questions about its underlying assumptions:

- Does growth really drive poverty reduction?
- Does good governance foster growth and development?
- Would it be possible to find poor countries demonstrably committed to good governance?
- Would the U.S. Government (USG) accept this discipline in selecting eligible countries?
- Would poor countries pursue the right policies, make data-driven investment decisions, and implement projects effectively?
- Could MCC effectively empower partner countries to “own” the design and implementation of projects?
- Could large grants for infrastructure be deployed productively and effectively within five-year compacts?
- Would extreme transparency backfire? Would full honesty about results—good and bad—jeopardize funding?

A Model Validated

Twelve years later, the answers to those questions are in, and they validate MCC's founding principles and model:

Economic growth drives poverty reduction

Sustained and inclusive growth has been shown to be the most powerful engine of poverty reduction. Data confirm this relationship for MCC program countries: in fact, for those countries, the incomes of the poor have increased at least as fast as the increase in average income.¹

Selectivity works

Importantly, MCC's objective selection criteria have proven well-founded. The evidence shows that:

- Corruption is a major drag on GDP.²
- Democratic rights are crucial to sustainable development.³
- Corruption and disenfranchisement undermine stability and create fertile ground for violence.
- Failing to invest in the poor limits economic mobility and worsens inequality.⁴
- Education and health investments boost productivity and growth.

Further, poor countries can and do meet MCC's criteria for eligibility. And the USG has consistently respected the criteria in making selection decisions and in determining whether to terminate or alter compacts when countries regress.

Reform can be incentivized

With the incentive of being selected for an MCC compact, many countries pursue the right policies, make data-driven investment decisions, and implement projects effectively. Put another way, what has been termed the "MCC Effect"—the reforms incentivized by MCC's scorecard and country selection system—is real and observable. This not only amplifies the effectiveness of MCC's investments, it also advances American interests and creates the enabling conditions for the private sector to flourish.

MCC's experience has demonstrated that compacts offer the opportunity to make the logic and case for reform politically compelling. Combining support for reform with support for project investments helps governments realize tangible gains through difficult decisions. **Country ownership and genuine partnership are achievable**

Countries have truly "owned" their projects, taking a lead role in compact development and execution. And MCC has developed a genuine partnership with these countries. Rather than dictating the path of development, it plays the role of supporting actor to the lead role of the country – including the

government, civil society, and private sector.

Major infrastructure projects are possible in five years

MCC is now recognized worldwide as a leader in helping poor countries select, design, and complete large-scale infrastructure projects in five years in difficult contexts—meeting high construction, environmental, and social inclusion standards. These projects are connecting people and communities to jobs, markets and opportunities to lift themselves out of poverty.

Data-driven rigor and transparency helps, not hurts

With MCC help, government partners embrace use of analysis identifying constraints to economic growth, cost-benefit analysis, and robust monitoring and evaluation (M&E) plans as the drivers of resource allocation, project design decisions, and results measurement.

MCC has been recognized for its leadership in transparency—ranked the most transparent aid agency in the world in 2013 and consistently in the top three since then. Far from jeopardizing funding, this transparency represents one of MCC's key assets.

Results and Lessons Learned

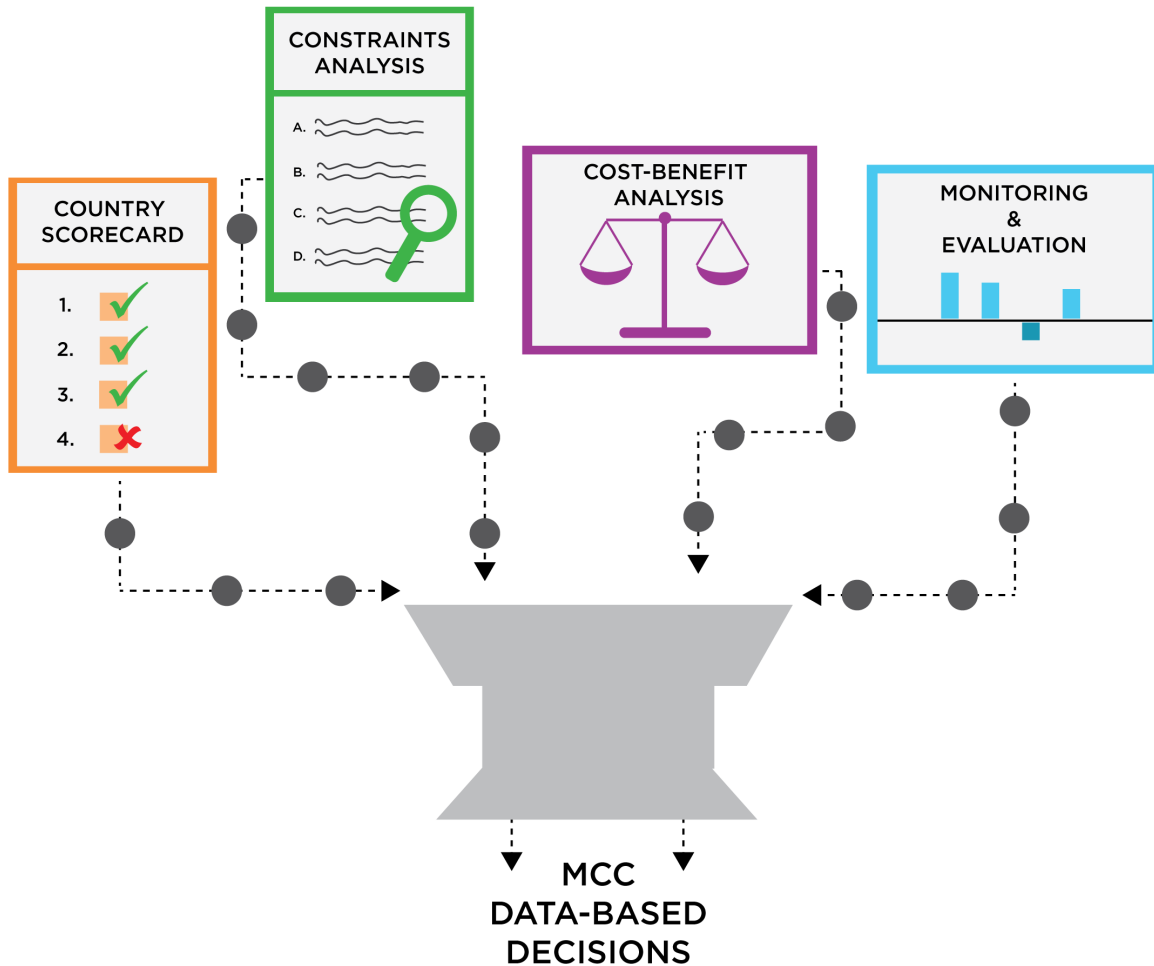
Results

MCC is committed to achieving and measuring results, holding itself accountable for those results, transparently reporting its results data and evaluations, and learning from the evidence to improve future programs. MCC targets and achieves results in the following three ways:

- MCC catalyzes results by incentivizing good policies and reforms. MCC's stringent eligibility criteria and global credibility have created a powerful incentive for reform, often before spending a dollar on country programs.
- MCC drives results through its compact and threshold investments which are tracked meticulously and evaluated independently. It has shown that a country-driven model of development can achieve measurable results.
- MCC promotes systemic change in policies, institutions, and sectors that outlives MCC engagement. It models best practices that are adopted and absorbed by partner countries. MCC's unique model increases partner-country capacity and promotes sustainability, accountable fiscal stewardship, and transparent procurement processes that outlast the lifetime of its compacts.

MCC's commitment to making decisions based on data and evidence pervades all stages of its engagement. MCC:

- Chooses partners based on 20 publicly available indicators that measure democracy, good governance and sound economic and social policies.
- Focuses compacts based on the binding constraints to economic growth in the countries.
- Chooses projects based on careful due diligence, including cost-benefit analysis and beneficiary analysis to ensure cost-effectiveness, to identify projects with, in most cases, a projected economic rate of return (ERR) greater than 10 percent, and to ensure that MCC's projects achieve growth and reduce poverty. The average estimated ERR over the life of the investment is 16 percent.
- Monitors and tracks progress through the life of the compact, making adjustments to programs as needed.
- Emphasizes outcome measurement to be able to assess how and if projects boost living standards for beneficiaries.
- Draws lessons from rigorous evaluations conducted by independent experts.



Because of this rigorous tracking, MCC has evidence of where projects are meeting or exceeding outcome targets—incomes, employment, productivity, and reduced costs—and where they are not; and MCC is committed to sharing these results publicly. This evidence informs and shapes future project design and decisions. In response to early results, MCC has:

- Improved its tools with a more consistent approach to constraints analyses, beneficiary and gender analyses, and use of common indicators. Used time between when a compact is signed and when it enters into force (when the five-year clock starts) more effectively to work with country partners to set up implementation and procurement systems and hire staff.
- Developed standards to ensure that programs are designed to show measurable results, and established an evaluation review and management process that involves MCC and country stakeholders, and fosters accountability *and* learning at all stages of the project cycle.
- Shared learning through Principles into Practice papers on results and evaluations, and summarized findings in a public evaluation catalog.

Lessons Learned

MCC practices what it preaches on transparency and accountability. Through self-assessment, MCC has moved to translate setbacks into adaptation and better approaches. A few examples:

- *Data-driven resource allocation.* A strong data-driven analytical and measurement framework is essential for choosing the right sectors and projects. Project selection in early compacts was suboptimal and inefficient without this framework, as valuable time was spent assessing long country wish lists lacking an underpinning in economic analysis.
- *Country-led design and implementation.* Building country implementation capacity needs to be an early focus, and adequately resourced, in the compact process. Early compacts invested too little in country capacity, in some cases with weak results. Implementation capacity needs to include both technical competence and the ability to mobilize decision-making at the political level. This capacity is viewed and assessed as part of the governance outcome of the compact.
- *Managing costs.* Insufficient early-stage investment in project preparation and risk mitigation was a principal reason for weak project delivery and cost overruns. Later compacts explicitly corrected this problem.
- *Leveraging the private sector.* In the early years, MCC did not deploy its grants strategically and catalytically enough to mobilize private investment. A more systematic focus on private investment has confirmed that high leverage is achievable.
- *Creating systemic impact.* A sharp and deep focus on one or two sectors enables greater systemic and sustainable impact. Early compacts spread MCC resources thinly across too many activities, limiting their scale, impact, and sustainability.

The New Landscape of Poverty and Development

The landscape of poverty and development has changed considerably since 2004:

More inclusive growth leads to faster, more sustained growth.

Researchers have found evidence that high inequality is bad for growth.⁵ Research also shows disproportionate poverty reduction gains from reaching women⁶ and marginalized populations⁷.



Regional integration has been a proven accelerator of growth and poverty reduction.

There is clear evidence of sustained benefits from regional integration in East Asia.

The geographic distribution of poverty is changing.

Currently, the largest numbers of poor live in marginalized pockets in middle income countries. Over time, poverty will increasingly be concentrated in fragile and conflict-affected states.



For countries with high inequality, measuring poverty using average per capita incomes can obscure important information.

Average income growth does not show the degree to which growth is shared by those at the bottom of the income distribution.

Decentralization is a growing trend in many poor countries.

- Responsibility for delivery of public services and infrastructure is increasingly being devolved to local governments. More local control can improve accountability and resource allocation and create islands of success with demonstration effects.

- For poor countries with weak central governments, functioning local systems can help fill the governance vacuum.

Private firms and private financial flows increasingly drive development as well as growth.

- Donor funds are not enough to meet infrastructure financing needs in developing countries. The private sector is a key player in funding, building, and managing infrastructure and the provision of social services.
- Private corporations are building shared value business models that target the poor as consumers and producers.
- Private investors searching for yield are willing to go to frontier markets.
- A growing class of private impact investors seeks both financial and social returns.
- Private capital and remittance flows dwarf official aid flows.

Nontraditional donors are moving center stage as development actors.

A number of private foundations and new emerging market donors are now development leaders.

Governments have greater capacity to self-fund development.

Domestic resource mobilization in low-income countries has quadrupled between 2002-2012, and many countries regard improving the efficiency of public investment as a key development priority.

Technological innovations make it possible to reach, serve, and empower the poor.

Examples include mobile phone technology, internet and broadband access, solar energy technology, nano- and mini-power and water grids, open data platforms, big data analysis, social networks, e-commerce, e-learning, and geospatial data tools.

Innovations in development finance tools enhance accountability, attract private funders.

Outcomes-based funding, crowdfunding platforms, and impact investment assets are examples of investment options offering opportunities to private actors with development interests.

The climate change and poverty reduction agendas are converging.

The poor and poor countries are on the front lines of climate change impact. Strategies for climate change mitigation/adaptation and poverty reduction are more complementary than conflicting.

Implications for MCC

These lessons and new evidence on poverty and development present important implications for MCC:

- MCC should work to expand gains from its poverty reduction model. This means: (a) identifying and supporting strategies for accelerating growth that are shaped by the latest and best evidence, and (b) helping the poor, women, and marginalized groups participate more in the benefits. The two objectives should be mutually reinforcing.
- Working with Congress, MCC should review its statutory country income eligibility criterion in order to assess whether it is using the best data available to identify high-poverty countries.
- MCC should aim to help governments sustain and expand the benefits of compacts through supporting reforms and better governance systems that outlive the five-year compacts.
- MCC can help partner countries reap greater growth gains by supporting their work to integrate regional markets and by investing its own resources on a regional basis.
- MCC needs to work more systematically to build local governance systems—both to reach the poor and to help countries that want to build strong decentralized governance.
- MCC can do more to engage and partner with the private sector as a critical source of finance, ideas, commercially viable business models, data-driven decision-making, and scaling capacity.
- MCC must remain an innovation leader and help governments and the private sector deploy innovations in bridging the digital access divide, technology, data, and business solutions that strengthen development effectiveness, accelerate growth, and connect the poor to opportunity.
- MCC must remain a leader in gender integration and inclusive growth, helping countries realize sustainable economic gains driven by greater gender and social inclusion.

GENDER INEQUALITY & ECONOMIC GROWTH

Gender inequality is a constraint to growth.

\$42-47
BILLION
PER YEAR

How much money the Asia/Pacific region is losing per year because of **restrictions on women's access to employment.**

\$16-30
BILLION
PER YEAR

How much money the Asia/Pacific region is losing per year because of **gender gaps in education.**

Source: www.goldmansachs.com/our-thinking/investing-in-women/bios-pdfs/women-half-sky-pdf.pdf

- MCC should approach climate change in ways that advance the mission of poverty reduction through growth, helping countries become more resilient and manage climate risks, as well as seizing sustainable growth opportunities that reach and benefit the poor.
- MCC needs to ensure that it has the institutional strength and capacity and high caliber workforce needed to drive innovation in its operations and broaden its impact, as well as the knowledge management platforms necessary to share learning internally and externally.

New Strategic Directions

MCC's experience and record strongly affirm that the core features of the mission and model should not change.

MCC's successes have been firmly rooted in the focus on poverty reduction through growth, good policy and governance, country ownership, data and analysis, strong results measurement, and transparency and accountability. Over time, MCC has found effective ways to address early challenges and make the model work in practice as well as in theory.

The focus going forward should be to reinforce and deepen the model and expand its impact and reach, rather than to change or weaken its core attributes.

This means:

- strengthening economic analysis,
- looking for better data for identifying high poverty countries,
- focusing on systemic and sustained impact,
- enhancing how the agency tracks and reports results,
- harnessing the benefits of regional integration for growth and poverty reduction,
- strengthening local governance to improve service delivery,
- forming more strategic and catalytic partnerships with the private sector and public donors,
- building in additional reform incentives,
- strengthening gender integration and social inclusion throughout analysis, design and implementation,
- investing more in learning feedback loops, and
- investing in MCC's own capacity and staff.

Filter by goal

- [Show All](#)
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- [Goal 5](#)

Goal 1: Opportunities

Help countries choose evidence-based priorities in growth and poverty reduction strategies that reflect new learning and new opportunities.

[See more about Goal 1](#)

Goal 2: Incentives

Strengthen reform incentives and accountability.

[See more about Goal 2](#)

Goal 3: Leverage

Broaden and deepen public and private partnerships for more impact and leverage.

[See more about Goal 3](#)

Goal 4: Measurement

Lead on data and results measurement, learning, transparency, and development effectiveness

[See more about Goal 4](#)

Goal 5: World-Class

Maximize internal efficiency and productivity. Maintain and motivate a world class, high functioning staff

[See more about Goal 5](#)

Better growth and project analysis

- Related goals:
- [1](#)

MCC's support for country assessments of binding constraints on growth, root causes of constraints, and cost-benefit project analysis generates powerful analytical assets for partner countries. MCC can help increase returns on those assets by building in more beneficiary-specific data and engagement, including for women or marginalized populations; improving analysis of benefit streams; finding the best ways to analyze costs and benefits of policy and institutional reform; introducing analysis of potential benefits for growth through regional integration; helping country partners continue to deploy these methodologies after the compact has ended; and sharing the analysis as a public good with potential public and private partners.

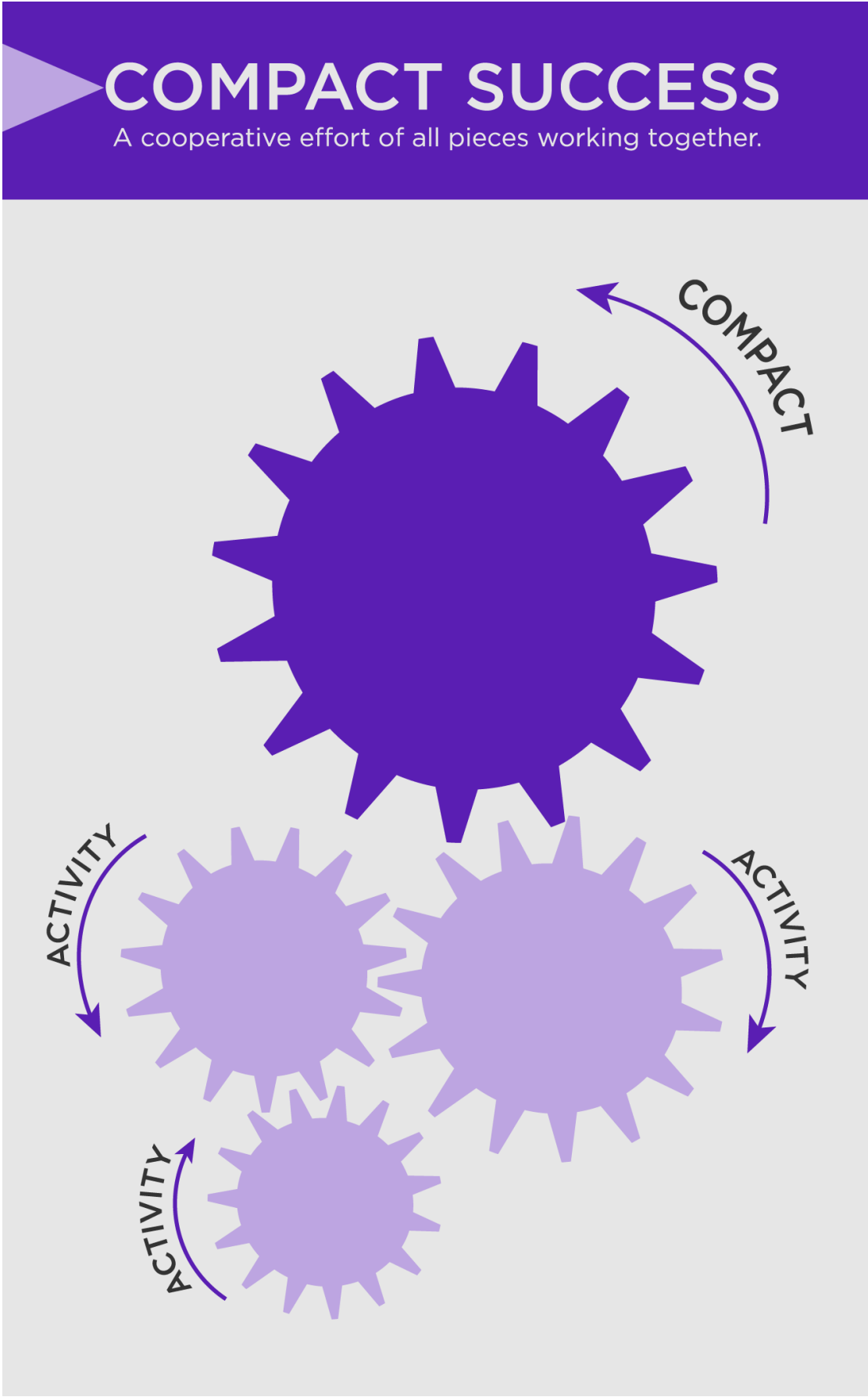
Better identifying poor countries

- Related goals:
- [4](#)

MCC works, and should continue to work, only in countries with high rates of poverty. At the moment, poor countries are defined in the MCC statute as countries with per capita income below a certain ceiling, as established by the World Bank. For the many developing countries with high income inequality and large concentrations of income in the upper quintiles, average per capita incomes can understate the extent and nature of poverty. MCC should explore with Congress whether there are alternative sources of data—consistently available across developing countries—that could be used to better assess poverty.

Achieving systemic impact

- Related goals:
- [2](#)



MCC's focus on policy and institutional reform should not stop at country selection. Increasingly, compact success itself depends on activities to strengthen governance, delivery of public services, key sectoral policies and institutions, legal and regulatory frameworks, and resilience and adaptation to climate change. These activities are needed to improve sectoral or overall economic performance and create the environments necessary for realizing the returns and development impact of MCC's infrastructure and other investments, as well as catalyzing private investment. MCC is working with countries to build these activities more consistently into compact development to promote lasting change beyond the effects of a compact on specific beneficiaries.

In addition, MCC is exploring how other dimensions of systemic change could be targeted by MCC compacts and threshold programs. Systemic change can be judged by the extent to which new and better public or private models for governance and delivery of goods and services essential for growth and poverty reduction are sustained, replicated, or scaled post-compact.

Achieving sustained impact through better governance systems

- Related goals:
- [1](#)
- [5](#)

Given the scale of MCC compacts, stakeholders expect MCC to play a role in building accountable national and local institutions and strengthening the social contract between citizens and the state. Going forward, MCC will prioritize ways to incorporate the building blocks of good governance into compacts and country systems, consistent with country interests and needs. For example, better project management and procurement systems, better domestic resource mobilization, data-driven decision-making systems, e-government platforms for accountability, robust government M&E systems, stronger local governance, and use of outcomes-based expenditure systems.

Fighting corruption: the MCC role

- Related goals:
- [2](#)
- [4](#)

Accountability is at the core of the MCC model, and fighting corruption is a central part of the MCC approach to poverty reduction through growth. MCC pursues this fight in its work with partner countries

in at least five ways:

- Countries must pass the Control of Corruption indicator in order to pass MCC's annual scorecard.
- Countries must maintain their commitment to controlling corruption throughout the life of the partnership.
- MCC builds strong anti-corruption training, standards, and prevention measures into its support for country-led compact implementation.
- MCC compact and threshold programs often directly address corruption in the context of overcoming constraints to economic growth, particularly as it impacts government delivery of goods and services, infrastructure construction, and revenue systems.
- MCC has the ability to recover misused funds, or suspend or terminate a compact if fraud or corruption is discovered during implementation.

Going forward, MCC will sustain this multi-dimensional fight, and, in particular, enhance and strengthen its programmatic focus on corruption in the context of the identified constraints and root causes. Examples of current programmatic work on fighting corruption in MCC compacts and threshold programs include developing transparent systems for households to connect to electricity and water; mechanisms to reduce theft of water and electricity; systems for data-driven resource allocation; transparent, competitive procurement systems; independent utility regulation; and technically proficient project oversight and management systems, insulated from political interference.

MCC will deploy the following principles⁸ to pursue the fight against corruption in ways that foster systemic change and lasting impact:

- Reward accountability, rather than focus only on punishing corruption.
- Prioritize strengthening partner country systems.
- Give citizens the tools and power they need to demand and obtain greater accountability.

Enhancing the results framework

- Related goals:
- [4](#)

MCC already has a robust system to capture inputs, outputs, and outcomes that directly benefit project beneficiaries and to independently evaluate impact. Adding more dimensions to this results framework will help MCC assess its broader systemic impact and its performance in achieving institutional goals.

Going forward, MCC will assess progress toward the institutional goals set as part of this strategic plan and will expand measurement of systemic impact, such as the economic benefits of policy, institutional, and governance reform; the degree to which MCC projects are sustained, scaled or replicated, or have other post-compact positive spillover effects; effectiveness in getting benefits to women, the poor, and other marginalized groups; and whether MCC activities at scale contribute to overall sectoral and economic performance.

Accelerating growth through regional integration

- Related goals:

- [1](#)
- [3](#)

Regional integration has helped catalyze and sustain high growth rates. Regional investments present robust opportunities to drive higher rates of return on investments, faster growth, and larger scale reductions in poverty. As a development agency committed to fighting poverty through economic growth, MCC risks leaving development impact and investment returns on the table if it focuses solely on bilateral engagements that stop at the border.

MCC is uniquely positioned to invest regionally for the benefit of poor countries. It has the technical capacity and a successful track record of delivering large, complex infrastructure projects and can deploy that capacity for cross-border investments. Just as important, MCC has experience incentivizing and supporting difficult policy, regulatory, and institutional reforms that must accompany infrastructure investments in order to realize growth gains. Bringing together both the hardware and the software of regional integration will be essential to making dynamic regional markets function and grow.

The collective action challenges of multi-country investments should not be underestimated. MCC is developing new capacities and finding ways to overcome those challenges to ensure that coordinated regional investments will:

- help countries work together to build and grow regional markets;
- expand and link regional power, transport, and water networks to reduce costs and improve service;
- capture more economies of scale;
- facilitate increased trade and investment; and
- help generate new business and market opportunities for U.S., global, and local companies.

Decentralizing development: governance at the subnational level

- Related goals:

- [3](#)

Learning from its experience in striving to reach poor populations with essential services needed to help them raise their incomes, MCC will enhance its toolkit for strengthening local governance. Effective programs often have to focus on building better municipal, district, or community-based governance systems. Local governance is frequently necessary for legitimacy, accountability, social and gender inclusion, timely decision-making, and sustained management and maintenance capacity. Whether it was land titling for small farmers in rural areas in Burkina Faso or Senegal, managing local irrigation systems

in Moldova, or building community development capacity in the Philippines, helping local stakeholders organize themselves, hold local governments accountable, and acquire the skills to manage their own service delivery has been essential to both effectiveness and sustainability.

Moreover, a number of poor countries are moving toward decentralization of revenue allocation, decision-making, and public service provision. In many cases, central governments have limited ability or will to perform essential functions across the country—sometimes for capacity reasons, other times for reasons relating to ethnic and political divisions that disadvantage parts of the population. In addition, there can be large differences across cities and districts in governance performance. The ability and flexibility to work with better governed cities can create powerful demonstration effects that amplify benefits.

Embracing Urbanization

- Related goals:
 - [1](#)
 - [3](#)

The correlation of urbanization with poverty reduction is strong. Urbanization within developing countries has accelerated over the last 20 years and provides impetus to and is reflective of the tendencies of decentralization mentioned above. Rates of urbanization are relatively low in sub-Saharan Africa but as the World Bank notes, even here half of the decline in poverty can be attributed to the process of urbanization. Among MCC's prospective partner countries, particularly in Africa but also in South Asia, the potential contribution of urbanization to growth and poverty reduction can be compromised if the process is not managed well. As an institution MCC should endeavor to incorporate, as appropriate, an understanding of the dynamics of rural-urban migration and urban growth into the root cause and sectoral analyses that follow a constraints analysis. Within the next two years MCC will develop a set of analytical and operational guidelines to assess the relevance and scope of working within an urban continuum of small towns to cities within its client countries. MCC will also identify the skills the institution requires to position itself as a responsible, effective development partner in urbanization.

Crowding in the private sector

- Related goals:
 - [2](#)

MCC has the capacity to help the private sector manage and mitigate three kinds of risk: country risk, sectoral/market risk, and project risk. The country selection process and scorecard identify poor countries

with the right policy trajectory and MCC continues to monitor that trajectory throughout the life of the compact or threshold program. Policy, institutional, and governance reforms in compacts help make sectors investable. MCC's extensive investment in early project preparation and due diligence expands the pipeline of bankable projects, including public-private partnerships. More broadly, MCC's grants can and should also be used to target roadblocks to the flow of private capital, such as information failures, skill deficits, collective action problems, and first mover costs and risks.

On the investment return side, MCC-supported sectoral reforms help ensure revenue streams in infrastructure for cost recovery, sustainability, and attracting private participation. And MCC is introducing outcomes-based payments into compacts to incentivize and reward strong performance by private service providers.

Going forward, MCC will deploy this array of tools more strategically and effectively for maximum catalytic effect in mobilizing private finance and participation in compact activities.

Incentivizing reform: the MCC approach

- Related goals:
 - [2](#)
 - [4](#)

MCC will build on the MCC Effect through strategic use of compact investments and the threshold program to incentivize reforms. Under the threshold program, MCC can gauge the appetite and capacity of a partner country to make and sustain critical reforms and to identify the reforms most necessary to unlock growth and poverty reduction. Reform-focused threshold programs test whether countries would make good compact partners. And they can offer opportunities for innovative reform pilots that can later be implemented on a larger scale if and when countries qualify for compacts.

More broadly, in both threshold programs and compacts, the reform agenda grows out of an understanding of key constraints to growth. Reform discussions are therefore tightly linked to the investment project discussions, in a way that clarifies the dependence of investment project viability on reform progress. This organic approach builds a shared understanding and interest by the partner country in pursuing reforms as essential means to the end of growth and poverty reduction.

Based on this shared commitment, governments and MCC are building compacts that tie certain program disbursement tranches to jointly established reform benchmarks. Linking upfront disbursements to achieving some of the hardest reforms is helping governments overcome internal and external resistance and building confidence, especially by the private sector, in the government's capacity and will to reform. MCC is also moving forward with the use of outcomes-based payments as an effective way to incentivize governments to reform provision of services so that they deliver for citizens.

Putting outcomes first

- Related goals:
- [3](#)

The goal of helping governments provide better, cost-efficient social services and access to basic infrastructure is at the core of much of MCC’s work. Part of that challenge requires getting the incentive structure right—helping governments focus on achievement of service and infrastructure access outcomes rather than only tracking and verifying input expenditures. MCC has long supported performance-based contracting in its infrastructure programs. Now it is helping countries introduce outcomes-based payments into service delivery projects. Paying for outcomes can be an effective way to advance the MCC mission and model:

- performance is judged by whether education, health and other outcomes are achieved rather than by how much funding is disbursed;
- governments will choose service providers with better track records, including private providers;
- there are strong incentives for service providers (public or private) to innovate and adjust over time to reach outcome goals—that is, the interventions are “owned” locally rather than micromanaged by MCC; and
- MCC and partner governments are transparently held accountable by independent evaluators for whether their funds achieved results targets.

Consistent with its core principle of country ownership, MCC helps governments take a pay-for-outcomes approach, such as in Morocco (education) and Sierra Leone (access to power and water). In these cases, MCC is funding initial pilots—with the country in the driver’s seat on coming up with outcome-based solutions, providing stronger assurance that the results will be achievable and sustainable. MCC will monitor lessons learned in these initial forays, seek to scale efforts that are successful, and deploy them in future efforts.

Strengthening environmental performance

- Related goals:
- [1](#)

The pursuit of sustainable economic growth and a healthy environment are interdependent. Further, economic growth that doesn’t adequately address the associated risks of environmental degradation or adverse social impacts can leave the poor particularly vulnerable. MCC will continue to work with partner countries to manage environmental and social risks and integrate internationally accepted principles of environmental and social sustainability into the design and implementation of compacts. Moving forward,

the agency will strengthen efforts to enhance sustainability of compact activities and identify opportunities to improve development outcomes.

Leading on gender and social inclusion

- Related goals:

- [1](#)
- [4](#)

Gender and social inequality can be significant constraints to economic growth and poverty reduction. Poverty has many dimensions, and the nature and extent of poverty can vary based on social factors such as gender, class, ethnicity, and age. A focus on reducing gender and social inequalities is therefore essential for sustainable development and equitable distribution of growth.

Strengthening its commitment to supporting programs with high economic returns and high poverty reduction impact, MCC will sharpen its economic and social analysis tools—deepening analysis of the relationship between gender and social inequalities and economic growth in the constraints analysis at national and subnational levels; seeking evidence on benefit streams most relevant to women and excluded groups; and improving the use of data and the timing of beneficiary analysis so that projections of poverty impacts can be more effectively used in project selection and design.

MCC will further strengthen integration of gender and social analysis in program logics, and use of evidence and disaggregated data to inform project design and scaling innovation, thus building more robust pathways between activities and sustainable poverty impacts. This can be achieved through a focus on, for example, gender and social dimensions of policy and institutional reforms, behavior change, access to assets and services, and catalyzing labor market opportunities—based on evidence of what achieves sustainable results.

Building on its work on Data2X, MCC will continue to exercise global leadership in sex-disaggregation and gender data and apply best practices in gender and social inclusion in monitoring and evaluation. MCC will further pursue evidence-based initiatives in gender and social inclusion across its new strategic directions, including through building partnerships with governments, the private sector, other agencies, and research institutions.

MCC and vulnerable states

- Related goals:

- [2](#)

MCC works in some of the world's poorest countries that have been selected by the MCC Board based on a positive track record of policy performance and good governance. MCC was not designed or intended to operate in countries with ongoing internal or external conflict or with deteriorating governance. MCC is committed to working with better governed poor states, but some of its partners remain vulnerable, grappling with the aftermath of conflict, natural disasters, disease, or other shocks, or subject to spillover from conflict in neighboring countries. Learning from experience, MCC will continue to refine its approaches to working in vulnerable states and devote extra resources when needed to help build citizen-state trust or rebuild institutions and systems damaged by conflict. In these circumstances, MCC will ask questions like these as it seeks to engage productively and effectively:

- Where political instability is an underlying impediment to growth, how is this constraint being addressed or mitigated in project design and implementation?
- What assessments and interventions need to be undertaken when political and social exclusion could affect the success and sustainability of MCC programs?
- In the context of serious partner government capacity constraints, what additional resources or support are needed for successful project design and implementation to leave behind improved capabilities and durable systems?

Innovation: the MCC role

- Related goals:
 - [2](#)
 - [4](#)

Innovation is not only about entirely new ideas and technologies. It is also about making tested innovation pilots scalable. And it is about finding innovative business models that can build and sustain markets for socially beneficial goods and services, without permanent reliance on public support.

In order to ensure continued systemic impact, MCC will focus on innovations that have already passed the proof of concept stage and have a performance track record. MCC's role should be to help countries find innovations validated by evidence, and help governments or the private sector scale and sustain them. In some circumstances, MCC will seek to introduce new innovations on a small scale as a prelude to expanding them later if warranted by the evidence, such as in a threshold program or in early implementation of a compact which has a pilot phase followed by a replication and scaling phase.

Knowledge capture, sharing, and feedback

- Related goals:
 - [4](#)

MCC is a leader in capturing and sharing data on project results and evaluations. These help determine whether project interventions worked—whether they achieved their intended outputs and outcomes. But there is more learning that is less effectively captured, particularly *how* to design and implement interventions as distinct from *what* interventions work best. Implementation lessons learned during the course of compact execution are critical for helping to avoid pitfalls and improve performance in future compacts and projects.

MCC has considerable experience in this kind of “how-to” learning, such as how to train small farmers most effectively; how to manage large-scale land titling programs efficiently; how to design education curricula that help vulnerable youth get jobs; and how to improve road maintenance systems. Now it will invest more in strengthening feedback systems to harness this learning for ongoing adaptation of design and implementation, both for its own effectiveness and for the benefit of country partners and others in the development community.

Serving the broader development community

- Related goals:
- [3](#)
- [4](#)
- [5](#)

MCC is a small part of a much broader development community. It should aim to deploy its strengths in ways that benefit other actors, and it, in turn, can greatly benefit by learning from them. Forming productive and catalytic partnerships will be a regular part of MCC work, and MCC will more consistently and proactively build strategic partnerships based on shared or complementary aims. Strategic partnerships may extend beyond particular compacts or threshold programs to cross-cutting activities where collaboration can increase impact.

Going forward, MCC will seek strategic partnerships in the following four spheres which offer clear potential for mutual benefit.

- *Data improvement/sharing and M&E frameworks.* MCC’s strength in this area complements increasing interest in the development community in collaborating on improving data availability (particularly for poor countries), sex disaggregation of data, open data platforms, and other data concerns. MCC will intensify and extend its existing work as a leader in these efforts.
- *Sharing analysis.* MCC will make a consistent effort to better leverage its investment in economic analysis and project due diligence by sharing these analytical assets with donors and investors interested in funding high-impact projects.
- *Sharing innovation.* MCC’s role, as described, is to help countries identify and scale proven innovations to address relevant growth or poverty challenges. To ensure ongoing access to scalable solutions, MCC will collaborate more systematically with leading public and private entities that are finding and testing early stage development innovations around the world.
- *Achieving scale.* MCC’s focus on systemic impact, partly through scale, is well served by engaging

actively with other donors with shared interests. In some cases, this will mean seeking donor partners to help fund MCC due-diligenced projects. In others, MCC will join with other donors on projects well suited to addressing identified constraints and root cause analysis.

Investing in MCC itself

- Related goals:
- [5](#)

MCC's investment in its own human capital, business and information systems, knowledge management, and organizational health has lagged its development goals and aspirations. MCC's administrative costs are lean and efficient given the size of program delivery. While MCC remains committed to efficiency, institutional investments are needed to improve long-term productivity, service delivery to country partners, and employee engagement.

Bolstering USG soft power

- Related goals:
- [1](#)
- [3](#)

MCC occupies a distinct and vital position in the context of broader U.S. foreign policy. Going forward, it will aim to enhance its role in five dimensions.

- As a vital bilateral channel for U.S. aid in support of economic growth, the strongest driver of sustained poverty reduction.
- Advancing U.S. values and the market democracy model—defined by economic freedom, investing in people, and ruling justly.
- Expanding the share of U.S. aid in the better-governed poorest countries.
- Investing in frontier markets, to help them become the next emerging markets and important U.S. economic partners, creating business opportunities for U.S. and other companies.

Reinforcing the citizen-state social contract in program countries, strengthening governance, service delivery, legitimacy, and stability, especially in vulnerable states.

Goal 1: Opportunities

Help countries choose evidence-based priorities in growth and poverty reduction strategies that reflect new learning and new opportunities.

Helping countries set and pursue practical and specific priorities for accelerating growth has proven one of the most valued MCC roles. Now countries seek better growth quality, which includes better poverty reduction returns, more inclusion, and more sustainable growth opportunities for the poor. MCC will deepen analytical support at the front end of compacts, including through tools for promoting inclusive growth; build partnerships around constraints to growth analysis results to engage others in advancing evidence-based priorities; and continue to emphasize strong governance and results.

Priority Actions

- Reinforce focus in compacts on critical growth-promoting reforms and on governance systems that mobilize and allocate resources wisely and execute programs effectively.
- Deepen constraints analysis to better assess how growth constraints impact women and marginalized groups.
- Broaden economic analysis to incorporate regional integration opportunities for accelerating growth.
- Build partnerships around constraints analysis results—attracting public and private donors to tackle the most binding constraints to growth and projects which exceed MCC funding capabilities and better leverage the effectiveness of the distinctive implementation model.
- Integrate more beneficiary-specific data and analysis into estimates of economic rates of return and project selection and design to boost gains for the poor and women and to foster more inclusive growth.
- Seek more feedback post-compact at the beneficiary level as part of results measurement and learning.
- Strengthen integration of environmental and social considerations in selection of poverty reduction strategies to manage risks, enhance broader benefits and promote sustainability.
- Systematically integrate assessments of climate change risks and opportunities into all projects and build sustainable growth opportunities for the poor into compacts.

New Strategic Directions

- [Better growth and project analysis](#)
- [Achieving sustained impact through better governance systems](#)
- [Accelerating growth through regional integration](#)
- [Embracing Urbanization](#)
- [Strengthening environmental performance](#)
- [Leading on gender and social inclusion](#)

Goal 2: Incentives

Strengthen reform incentives and accountability.

MCC's selection criteria and ability to combine policy and project discussions have helped motivate countries to undertake difficult reforms. To make better use of this advantage, MCC should focus more on reforms with greater systemic impact.

Priority Actions

- Calibrate MCC's reform role to meet countries' distinct needs and capacities, recognizing that MCC works in a wide variety of countries ranging from vulnerable, reforming states to emerging markets.
- Work with countries and partners to prioritize reforms that sustain and expand benefits beyond compact projects.
- Help governments imbed improvements in standards, practices, and service delivery in country systems to build accountable national and local institutions that strengthen the citizen-state social contract.
- Ensure that reforms prioritize financial and institutional sustainability, with attention to gender and social equity.
- Enhance programmatic focus on fighting corruption to address identified binding constraints to growth and root causes.
- Strengthen the threshold program as a tool for promoting reform and accelerating the MCC Effect.
- Deploy innovative tools for tightly linking funding to outcomes for both the public and private sector.
- Use new systems and technologies that directly engage beneficiaries and other stakeholders for design and feedback on impact.

New Strategic Directions

- [Achieving systemic impact](#)
- [Achieving sustained impact through better governance systems](#)
- [Fighting corruption: the MCC role](#)
- [Incentivizing reform: the MCC approach](#)
- [Putting outcomes first](#)
- [MCC and vulnerable states](#)
- [Innovation: the MCC role](#)
- [Bolstering USG soft power](#)

Goal 3: Leverage

Broaden and deepen public and private partnerships for more impact and leverage.

MCC can increase returns on its investments by deepening engagement with the right countries, taking the model to new high-poverty areas, and helping countries collaborate on building dynamic regional markets.

MCC should focus more systematically on using the full range of its robust toolkit to build new market opportunities in frontier economies and crowd in private investors.

Priority Actions—Public

- Deepen partnerships with African governments and develop new partnerships in South Asia.
- Develop regional, multi-country investment approaches that maximize economic impact.
- Pursue high-impact investments that reach the poor and strengthen local governance, including through subnational partnerships.
- Collaborate systematically with other USG agencies to create more synergies and boost collective returns.
- Develop partnerships with other public donors to expand the scale and impact of MCC projects.

Priority Actions—Private

- Target policy reforms and solutions to market failures that open up private sector market opportunities.
- Build bankable project pipelines by investing in early project preparation.
- Help countries design and implement public-private partnerships with the highest returns.
- Fill financing gaps and deploy risk-mitigating tools to unlock private investment in frontier markets and achieve more leverage with grant funding.
- Build strategic partnerships with foundations, corporations, and investors that share MCC goals and values.
- Engage U.S. companies on business opportunities generated by compacts.

New Strategic Directions

- [Accelerating growth through regional integration](#)
- [Decentralizing development: governance at the subnational level](#)
- [Embracing Urbanization](#)
- [Crowding in the private sector](#)
- [Serving the broader development community](#)
- [Bolstering USG soft power](#)

Goal 4: Measurement

Lead on data and results measurement, learning, transparency, and development effectiveness

MCC should take its results and data leadership to the next level by helping others build data-driven decision-making systems; better measuring systemic impact; incorporating and improving gender data; investing more in knowledge feedback; and committing to scaling evidence-based development innovations.

Priority Actions

- Explore new data sources for more accurately identifying countries with high poverty rates.
- Build out the MCC results framework to better assess systemic impact, track gender and social inclusion goals, performance on institutional goals, and efficiency.
- Invest more in knowledge management systems that systematically share and deploy learning internally and externally.
- Share innovations in data-driven decision-making across the development community.
- Target resources for promoting and scaling proven innovations where conventional development solutions are failing.

New Strategic Directions

- [Better identifying poor countries](#)
- [Achieving systemic impact](#)
- [Enhancing the results framework](#)
- [Putting outcomes first](#)
- [Leading on gender and social inclusion](#)
- [Innovation: the MCC role](#)
- [Knowledge capture, sharing, and feedback](#)
- [Serving the broader development community](#)

Goal 5: World-Class

Maximize internal efficiency and productivity. Maintain and motivate a world class, high functioning staff

After 12 years, like any firm that has moved beyond start-up and the first phase of growth, MCC needs to invest in institutional strength, including a business culture of dynamism, strong and flexible management systems, and exceptional human capital.

Priority Actions

- Design better compacts, faster through systems changes directed at stronger outcomes for cost, time, and quality.
- Invest more in the rapid start-up, strong performance, and sustainability of local partner implementers.
- Empower and motivate staff through support for bottom-up innovation and collaboration.
- Support country teams by strengthening and streamlining managerial oversight and better defining roles, responsibilities, and accountability.
- Integrate and strengthen systems for financial management, contracting, results, knowledge management, and human resources to boost productivity, optimize resource allocation, and enhance decision making.
- Adapt policies for staffing and training to better meet MCC's workload needs and distinctive human capital needs.

New Strategic Directions

- [Achieving sustained impact through better governance systems](#)
- [Innovation: the MCC role](#)
- [Serving the broader development community](#)
- [Investing in MCC itself](#)

Endnotes

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Reducing Poverty Through Growth

